# ABAQULUSI MUNICIPALITY

# DRAFT

## MEDIUM TERM BUDGET

## 2012/ 2013 TO 2014/2015

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**Adjustments Budgets** – Prescribed in section 28 of the Municipal Finance Management Act, this is the formal means by which a municipality may revise its budget during a financial year.

**Allocations** – Money received from Provincial and National Treasury.

**Budget** – The financial plan of a municipality.

**Budget related policy** – Policy of a municipality affecting, or affected by, the budget. Examples include tariff policy, rates policy and credit control and debt policy.

**Budget Steering committee** – Committee established to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the MFMA.

**Capital Expenditure** – Spending on municipal assets such as land, buildings and vehicles. Any capital expenditure must be reflected as an asset on a municipality's balance sheet.

**Cash Flow Statement** – A statement showing when actual cash will be received and spent by the municipality, and the month end balances of cash and short-term investments.

**CPI** – Headline Consumer Price Index

**DMTN** – Domestic Medium Term Note

**DORA** – Division of Revenue Act. Annual legislation which shows the allocations from national to local government.

**DORb** – Division of Revenue Bill. Annual legislation tabled in parliament, but not enacted, which shows the allocations from national to local government.

**Executive Management Team** – A team comprising the Municipal Manager and the Executive Directors. It reports to the Municipal Manager.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted at assisting municipalities with the costs of free basic services.

**GDFI** - Gross Domestic Fixed Investment

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

**IDP –** Integrated Development Plan. The main strategic planning document of a municipality.

**KPI –** Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** - Municipal Finance Management Act (No 53 of 2003). The principal piece of legislation relating to municipal financial management.

**MTREF –** Medium Term Revenue and Expenditure Framework, as prescribed by the MFMA. It sets out indicative revenue and projected expenditure for the budget year, plus two outer financial years.

**MYPD –** Multi Year Price Determination

**NT –** National Treasury

**Operating Expenditure –** The day-to-day expenses of a municipality such as general expenses, salaries & wages and repairs & maintenance.

**Portfolio Committee –** In line with Section 79 of the Structures Act, the Municipality's Portfolio Committees process policies and bylaws relating to the functional areas within their terms of reference, and are responsible for implementation monitoring of these, as well as oversight of the functional areas. Portfolio Committees are also responsible for assessing and monitoring services delivery, ensuring that annual budgets are spent wisely, and that there is no wastage or corruption.

**Rates –** Local Government tax based on assessed valuation of a property.

**TMA –** Total Municipal Account

**SCM** - Supply Chain Management

**SDBIP –** Service Delivery Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**SFA** – Strategic Focus Areas. The main priorities of a municipality as set out in the IDP. Budgeted spending must contribute towards achievement of these Strategic Focus Areas.

**Vote –** One of the main segments into which a budget is divided, usually at directorate level.

**MAYOR'S REPORT**

In the Budget Speech to Parliament on the 22nd of February 2012, Minister of Finance said and I quote 'Mister President, you have given us a clear and historic challenge to "write a new story about South Africa – the story of how, working together, we drove back unemployment and reduced economic inequality and poverty". It is about building modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment opportunities, by all of us, South Africans from all corners of this country."

Minister Gordhan then went further to say we must not turn away from our challenges. Instead we must confront them and harness all resources at our disposal and learn to do more with less, we have to work smarter and harder.

The Minister further emphasised that State enterprises, municipalities and government departments all need to improve their planning and management of capital projects. In addition to long delays, cost over-runs are often experienced in infrastructure projects. We therefore have to step up the quality of planning, costing and project management so that infrastructure is delivered on time and within the allocated budget. This further means that municipalities and government departments that do not spend, under-spend or mis-spend their allocated funding, will be at risk of losing their allocations and the relevant officials will also be held accountable. National Treasury will be monitoring the spending of grants to ensure value for money and adherence to the Expanded Public Works Program targets.

The Municipal Infrastructure Support Agency will be established this year and will focus on rural municipalities that lack planning capacity.

During the State of the National Address the President asked that we use our strengths by getting more people working, exploiting our mineral wealth and making use of local innovation and business know-how. To make these proposals effective the quality of leadership and co-operation between businesses, labour and government are critical.

The President further stated that the private sector must play a complementary role in improving the implementation and efficiency of infrastructure projects. In the electricity sector, private companies must generate more power and concentrate on renewable energy projects. Government is considering setting up an oversight unit to clarify the roles of regulators and update policies to ensure efficient, transparent regulation of network industries. The Department of Energy is reviewing its electricity pricing policy to provide appropriate guidelines to the National Electricity Regulator.

"Green" growth policies promote economic advancement in an environmentally sustainable manner. The shift towards a more resource efficient, low-carbon economy will lead to new sources of growth and complement economic reforms.

Management within local government has a significant role to play in strengthening the link between the community and governments overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the AbaQulusi Municipality.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities.

The challenge is to do more with the limited resources available. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that sustainable municipal services are provided economically and equitable to all communities. We must ensure value for money with the greatest possible vigour to ensure rate payers money is well used and not wasted.

One of the priorities is to invest into our infrastructure which is ageing and needs to be updated and maintained. To achieve this we have to improve and encourage investment into the area. We also have to support job creation with focus on unemployed youth who are the future of AbaQulusi, to this extent R1 million has been allocated by National Treasury to the Expanded Works Program. The municipality will further try and reduce unemployment and poverty with policy reforms and partnerships with local businesses and labour to reduce the cost of doing business, raise productivity, tap new markets for investment and take advantage of opportunities presented by enhanced regional integration.

One of the focus points of the budget this year is to improve the efficiency of the municipality by redirecting spending to priority areas. Department's budgets have been cut in selected areas and funds shifted towards the key priorities.

## 1. RESOLUTIONS

**The 2012/2013 MTREF Budget Resolutions recommend that:**

1. The Council of AbaQulusi Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

   The draft annual budget for the financial year 2012/2013; and the multi-year and single-year capital appropriations as set out in the following tables:

   a) *Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18 on page*
   b) *Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19 on page*
   c) *Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21 on page*
   d) *Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22 on page*
2. The financial position, cash flow budget, cash-backed reserve/accumulates surplus, asset management and basic service delivery targets are approved as set out in the following tables:
   a) *Budgeted Financial Position as contained in Table 23 on page*
   b) *Budgeted Cash Flows as contained in Table 24 on page*
   c) *Cash backed reserves and accumulated surplus reconciliation as contained in Table 25 on page*
   d) *Asset management as contained in Table 26 on page; and.*
   e) *Basic service delivery measurement as contained in Table 27 on page.*

3. The Council of AbaQulusi Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012 the tariffs for other services, as set out in Annexures G1 to G21 respectively.
4. To give proper effect to the municipality's draft annual budget, the Council of AbaQulusi Municipality approves:

a) *That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.*
b) *That the municipality be permitted to enter into long-term loans for the funding of capital programmes in respect of the 2012/2013 financial year limited to an amount of R… per financial year of the MTREF in terms of Section 46 of the Municipal Finance Management Act.*
c) *That the Acting Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.*

## 2. BUDGET SYNOPSIS & EXECUTIVE SUMMARY

### a. General

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate funds were transferred from low- to high priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditure on non-essential and 'nice-to-have' items. 2012/13 MTREF was drafted in context of a reviving economy, whilst still acknowledging the lingering effects of the economic downturn of the past couple of years.

The budget for the 2012/13 MTREF period was based on the realisation that no, or limited, scope for additional externally- or internally-funded revenue growth existed and was further reiterated in National Treasury guidelines (circular 51) - "…*over the next few years, government must deliver more services – and deliver them more efficiently – within a tight resource envelope. Achieving this objective requires a new way of working: the budget has been reprioritised so that money is moved from low-priority programmes to high-priority programmes. Municipalities are encouraged to adopt similar stances on these issues. This is particularly important in the run-up to the local government elections. Mayors and Councils need to remain focused on the effective delivery of core municipal services…."*

The budget was compiled by ensuring that the financial management processes are transparent, aligned to the accountability cycle and facilitate good governance that is accountable to the local community.

The budget supports the provision of basic services to the communities, facilitating social and economic development, promoting a safe and healthy environment in a sustainable manner.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the local economy
- Ageing water, roads and electricity infrastructure
- The need to prioritise projects and expenditure within the existing resources available.
- The increased cost of bulk electricity due to tariff increases from ESKOM. This is placing pressure on the budget as the tariff the municipality has been allowed to charge is less than the bulk cost meaning there are less funds available for maintenance. Continuous high increases are not sustainable as it gets to a point where services are no longer affordable.
- Affordability of capital projects – allocations had to be reduced due to cash restraints and preference given to repairs and maintenance.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustment Budget priorities and targets, as well as the base line allocations contained in the Adjustment Budget.
- Service level standards were used to inform the measurable objectives, targets and backlog eradication goals.
- Tariff and property rate increases should be affordable and try not to exceed inflation as measured by the CPI, except where the price increases in the services that are beyond the control of the municipality, i.e. ESKOM.
- No budget has been allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the Division of Revenue Act gazette.

**b. Operating Budget**

**Expenditure**

Total operating expenditure increased from R 316 million in 2011/12 to R409 million in 2012/13. The overall growth of 22,9% can be attributed to increases on several expenditure components. Examples of these are:

| | 2011/2012 Budget R | 2012/2013 Budget R | Year on year % |
|---|---|---|---|
| Employee related costs | 89,103,785 | 118,088,150 | 32.5% |
| Remuneration of Councillors | 11,350,140 | 12,358,742 | 8.9% |
| Depreciation | 16,848,292 | 18,226,350 | 8.2% |
| Bulk purchases | 100,500,000 | 114,446,480 | 13.9% |
| Contracted Services | 26,504,000 | 28,094,240 | 6.0% |
| Grants paid | 14,929,000 | 9,300,000 | -37.7% |
| Other expenditure | 56,797,780 | 109,364,779 | 92.6% |
| Total expenditure | 316,032,997 | 409,878,741 | 29.7% |

**Reasons for significant variances:**

**Remuneration of Councillors** – The 2012/13 provision includes an allocation for additional Councillors following ward demarcation amendments and the impact of full time position of Chairperson of the Municipal Public Accounts Committee (MPAC) formerly SCOPA.

**Depreciation & Asset Impairment** – The increase results from the adjusted values of certain asset classes due to the GRAP conversion of the asset register. Prior to this

assets were retained at historical value. The depreciation impact of major projects as well as the revaluation of certain asset classes has also added to this new cost;

**Bulk Purchases** – The increase results from higher than inflationary bulk purchase costs envisaged for the Electricity Services whereby the increase from Eskom is to be 13.50%.

**Other expenditure** – This expenditure component now includes all other grant funding including the grant funding for capital in terms of GRAP accounting standards.

Staff Cost increases:

| | 2011/2012 Budget R | 2012/2013 Budget R | Year on year % |
|---|---|---|---|
| Council & Executive | 11,350,140 | 12,358,742 | 8.89% |
| Municipal Manager | 3,541,520 | 4,860,760 | 37.25% |
| Budget & Treasury | 10,908,750 | 14,526,490 | 33.16% |
| Corporate Admin | 5,079,800 | 5,881,470 | 15.78% |
| Information Technology | 1,440,930 | 2,014,670 | 39.82% |
| Human Resources | 2,440,800 | 2,832,590 | 16.05% |
| Parks & Gardens | 2,778,960 | 2,741,660 | -1.34% |
| Library | 1,844,460 | 2,537,090 | 37.55% |
| Museum | 264,800 | 423,420 | 59.90% |
| Community Development | 1,443,900 | 2,363,580 | 63.69% |
| Cemeteries | 1,159,870 | 2,784,130 | 140.04% |
| Safety & Security | 7,791,440 | 10,067,220 | 29.21% |
| Housing Services | 867,620 | 1,466,180 | 68.99% |
| Health & Clinics | 404,370 | 741,310 | 83.32% |
| Strategic Planning | 3,066,940 | 4,183,570 | 36.41% |
| Roads | 7,998,600 | 11,714,530 | 46.46% |
| Vehicle Licensing | 889,010 | 988,920 | 11.24% |
| Technical Administration | 1,932,690 | 2,385,570 | 23.43% |
| Electricity | 12,235,360 | 16,459,550 | 34.52% |
| Water | 10,578,585 | 14,584,880 | 37.87% |
| Waste Water | 9,121,250 | 9,927,390 | 8.84% |
| Waste Management | 2,959,280 | 4,328,040 | 46.25% |

| | | | |
|---|---|---|---|
| Other – Tourism | 245,070 | 275,130 | 12.27% |
| **Total Staff costs** | **100,344,145** | **130,446,892** | 30.00% |

**Reasons for significant staff cost variances:**

- Council and Executive – additional full time position of Chairperson of MPAC
- All vacancies will be allocated to Corporate Services Department and will be prioritised by departments before the final budget presentation.

Repairs and Maintenance costs

| | 2011/2012 Budget R | 2012/2013 Budget R |
|---|---|---|
| Other | 3,524,200 | 5,477,071 |
| Roads | 4,775,000 | 4,367,914 |
| Sanitation | 700,000 | 2,025,000 |
| Refuse | 10,000 | 15,000 |
| Electricity | 4,083,270 | 10,400,000 |
| Water | 3,556,810 | 4,400,000 |
| Total | **16,649,280** | **26,270,000** |

**Due to the high increase in the cost of electricity the maintenance budget has had to be reduced in some departments.**

**The 2012/2013 Operating Budget provides for the following additional allocations: Revenue**

Total operating revenue increased from R 316 million in 2011/12 to R 321 million in 2012 / 13.

Major contributing items are:

- An increased allocation in respect of the National Equitable Share allocation (from R 57 million (2011/12) to R79 million (2012/13))
- Projected growth and tariff increases on Property Rates Tax and Service Charges (Water, Sanitation, Electricity and Refuse)

Revenue sources:

| | 2011/2012 Budget R | 2012/2013 Budget R | Year on year |
|---|---|---|---|
| Property Rates tax | 32,866,670 | 38,018,670 | 15.68% |
| Property Rates – penalties | 811,000 | 859,390 | 5.97% |
| Services charges – Electricity | 123,439,000 | 135,757,760 | 9.98% |
| Services charges – Water | 22,934,000 | 24,842,040 | 8.32% |
| Services charges – Sanitation | 14,729,000 | 16,202,990 | 10.01% |
| Services charges - Refuse | 11,483,000 | 16,130,230 | 40.47% |
| Rental of facilities and equipment | 317,000 | 336,020 | 6.00% |
| Interest earned – investments | 3,300,000 | 3,180,000 | -3.64% |
| Interest earned – outstanding debtors | 17,000 | 18,530 | 9.00% |
| Fines | 2,371,000 | 1,444,170 | -39.09% |
| Licences and permits | 4,588,000 | 4,519,892 | -1.48% |
| Grants & Subsidies | 73,161,000 | 81,353,000 | 11.20% |
| Grants & Subsidies - capital | 41,105,000 | 33,444,000 | -18.64% |
| Other Revenue | 26,018,582 | 27,579,697 | 6.00% |
| Total Revenue | 357,140,252 | 354,646,344 | -0.70% |

**Reasons for significant Revenue variances:**

- Water, Refuse and Sanitation – allowance made for growth in consumption
- Electricity – During the 2011/12 the municipality installed over 650 new connections in the ESKOM areas. The increase allowed by NERSA is on average 11,03%, but certain block tariffs are slightly over the13,5% of the tariff. Further, it must be noted that the sale of pre-paid electricity to consumers other than indigents has also increased by 13,5% and it is in line with conventional cost. The cost for indigents has been kept at 6%.
- Interest on Investments must now be shown as revenue
- Various classes of revenue reduced due to downturn in economy
- Other Revenue – includes contribution for depreciation

**Individual service tariffs / Rates**

The proposed tariff increases in the table below are averages; i.e. some clients may pay more and others less than the average.

Average Tariff increases for 2012/13, 2013/14 and 2014/15:

| | 2012/13<br>% | 2013/14<br>% | 2014/15<br>% |
|---|---|---|---|
| Rates | 6 | 5 | 5 |
| Electricity | 11.03 | 5 | 5 |
| Water | 10 | 5 | 5 |
| Sanitation | 6 | 5 | 5 |
| Refuse Removal | 6 | 5 | 5 |

**Rates**
The tariff increase is 6%

**Water and Sanitation**
An average tariff increase of 10%

**Solid Waste**
An average tariff increase of 10%.

**Electricity**
Although the Eskom bulk supply costs increases by 13.5%, the average tariff increase is 11,03%. This will not enable the municipality to catch up for the past two years where the tariff increase was approximately 10% each year less than the Eskom increase. Following the guidelines in Circular 58 paragraph 3.2 “Municipalities are urged to examine the cost structure and apply to NERSA for electricity tariff increases that are cost reflective and ensure continued financial sustainability.”

## c. Capital Budget

The Capital Budget from grants funding has been reduced from R41 million in 2011/12 to R28, 9 million in 2012/13. This overall reduction is attributed to a reduced amount being received for the electrification of houses in the AbaQulusi area.

| | **2011/12<br>Budget<br>R** | **2012/13<br>Budget<br>R** | **Increase/Decrease<br>R** |
|---|---|---|---|
| Capital Grants | 41,105,000 | 34,944,000 | (6,161,000) |
| | | | |
| **Total** | **41,105,000** | **34,944,000** | **(6,161,000)** |

Major capital expenditure is planned in the following areas during the 2012/13 financial year:

- Roads – R 25,444,000
- Electricity – R 8,000,000

The most significant projects are in:

Technical Directorate:

- Roads Services – an amount of R1 million has been allocated for EPWP
  - Rural Roads & Bridges
  - eMondlo Roads

- Electricity Services:
  - Electrification of houses in the ESKOM areas

- Housing Directorate:
  - An amount of R3,9 million has been allocated by Provincial Treasury but they have advised us not to show it on the Budget as they will be handling the project

- Thusong Centre:
  - An amount of R500,000 has been allocated by Provincial Treasury for operational support for the Thusong Centre

New projects (extract) in the draft 2012/13 Capital Budget:

| Project Description | 2012/13 Budget R |
|---|---|
| Electrification of ESKOM areas | 8,000,000 |
| Roads | 25,444,000 |

## 3. ANNUAL BUDGET TABLES

**Budget schedules to be approved by resolution of Council**

**Table A1 - Budget Summary**

**Table A2 - Budgeted Financial Performance**
(Revenue and Expenditure by standard classification)

**Table A3 - Budgeted Financial Performance**
(Revenue and expenditure by municipal vote)

**Table A4 - Budgeted Financial Performance**
(Revenue and Expenditure)

**Table A5 - Budgeted Capital Expenditure by vote, standard classification and Funding**

## 4. OVERVIEW OF ANNUAL BUDGET PROCESS

### a. Budget Process Overview

In terms of Section 24 of the MFMA, Council must, at least 30 days before the start of the financial year, consider the annual budget for approval. Section 53 requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations, gazetted on 17 April 2009, states that the Mayor of a municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

In line with the above requirements, the budget process for the 2012/2013 MTREF period proceeded/will proceeds according to the following timeline:

**5 August 2011**:

Planning meeting and establishment of Budget Committee including review of IDP and budget policies as per Gazette 32141

**25 August 2011:**

**Budget Framework**

Meeting the HOD's to discuss budget process. Preparation of budget framework to provide parameters and request budget and tariff inputs for 2012/13

**9 November 2011**

**Presentation of Departmental and Capital Budgets**

Departments to present budget requirements to Finance, including tariff proposals. Suggested amendments to Budget related Policies

**13 March 2012 Draft Budget**

Submit Draft budget, tariffs, SDBIP's to Exco for recommendation to Council Submit Draft IDP to Exco for recommendation to Council

### b. Integration of the review of the IDP and the preparation of the Budget

The IDP is the principal strategic planning instrument that guides and informs its planning, management and development actions. This visionary framework is rolled out into objectives, key performance indicators (KPIs) and targets for implementation. These are then broken down into Service Delivery and Budget Implementation Plans (SDBIPs) that reflect the detailed projects. Each of these projects is allocated budgetary and other resources.

The IDP also informs the municipality's performance management system, as the KPIs are monitored and must be reported on every quarter.

The figure below visually represents the link between the IDP and the Budget and demonstrates how corporate strategy is cascaded towards through the organisation, and how it influences and shapes the operating and capital budgets of the various directorates and departments within the municipality.

**Figure 1: IDP and Budget link**

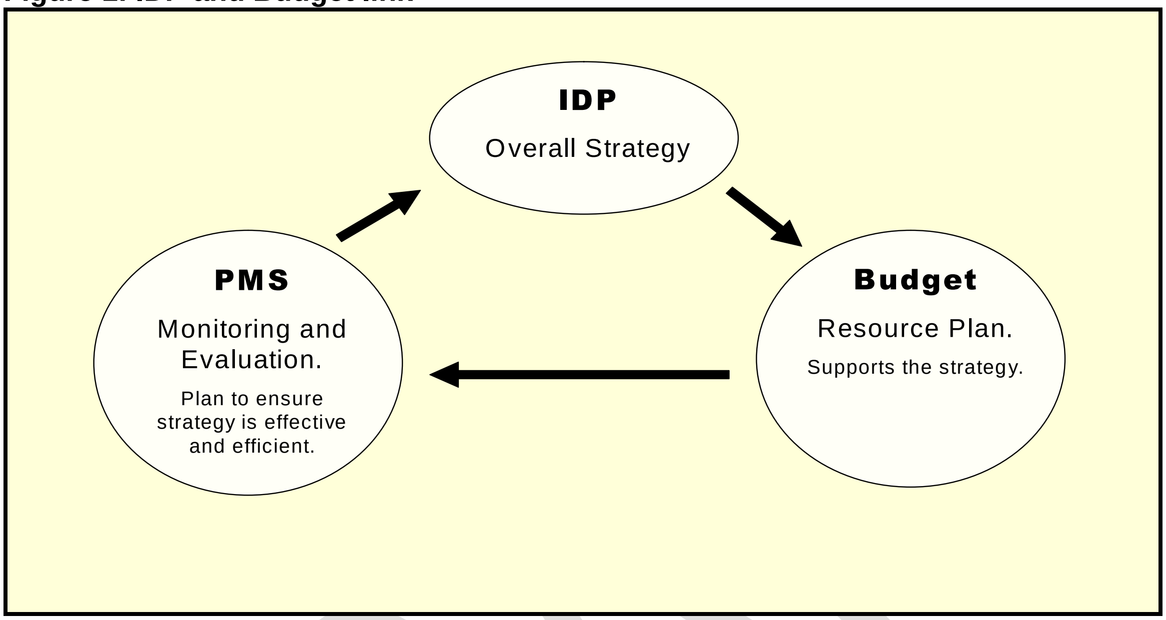


**Figure 1: IDP and Budget Link**

### c. Consultation with the community and key stakeholders

The IDP public engagement was held from September 2011 to March 2012. Public awareness of the process was ensured through extensive regional and local print media advertising as well as invitations to ward forums. The first series of direct engagements occurred with consultation taking place at a sub Council level.

The tabled budget will provided to the National and Provincial Treasury for their assessment in accordance with S23 of the MFMA in March 2013.

### d. Schedule of Key Deadlines relating to budget process [MFMA s 21(1) (b)]

The 2012/2013 IDP and Budget time schedule was approved in August 2011. The schedule is reflected below.

| DATE | ACTIVITY | RESPONSIBILITY |
| --- | --- | --- |
| **08 July 2011** | Submission of Draft IDP Process Plan to COGTA | **IDP Manager** |
| **15 July 2011** | IDP Process Plan to EXCO for approval | **IDP Manager** |
| **26 July 2011** | Draft process Plan to Council for adoption | **IDP Manager** |
| **03 August 2011** | Advertising of Process Plan | **IDP Manager** |
| **05 August 2011** | Meeting with Mayor, EXCO and MANCOM to establish consultation forum and plan program of meetings. | **MM/CFO** |
| **24 August 2011** | IDP Steering Committee | **IDP Manager** |
| **8 September 2011** | **Budget Framework**<br>Meeting the HOD's to discuss budget process. Preparation of budget framework to provide parameters and request budget and tariff inputs for 2012/2013 | **CFO** |
| **21 September 2011** | **Presentation of Departmental and Capital Budgets**<br>Departments to present budget requirements to Finance, including tariff proposals. Suggested amendments to Budget related Policies | **HOD'S/CFO** |
| **23 September 2011** | First IDP Representative Forum | **IDP Manager** |
| **29 September 2011** | First Service Provider Forum | **IDP Manager** |
| **07 October 2011** | **Completion of Salary Budget** | **CFO** |
| **13 October 2011** | Second Service Provider Forum | **IDP Manager** |
| **17 October 2011** | **Prepare draft budget three year operational and capital budget** | **CFO** |
| **21 October 2011** | **Submission of Budget Inputs**<br>Final date for HOD's to submit departmental budget inputs.<br>Proposed Capital projects from IDP | **HOD'S** |
| **28 October 2011** | **Report back on progress with IDP/Budget inputs** | **CFO**<br>**MANCOM** |
| **04 November 2010** | **Budget discussion document**<br>Compile discussion document from inputs and submit to BUDGET COMMITTEE, EXCO and MANCOM<br>**IDP Steering Committee** | **CFO**<br>**IDP Manager** |
| **10 November 2011** | **Budget Workshop**<br>Discussion of budget inputs, link capital and operational plans to IDP and determine proposed tariffs | **EXCO**<br>**MANCOM** |
| **22 November 2011** | **Draft Budget**<br>Submit 1$^{st}$ Draft to Exco | **CFO** |
| **06 December 2011** | **Draft Budget**<br>Submit 1$^{st}$ Draft to Council | **CFO** |
| **18 January 2012** | IDP Steering Committee | **IDP Manager** |
| **18 January 2012** | **Review of current budget and inputs for new budget** | **MANCOM** |

| | | |
|---|---|---|
| **09 February 2012** | IDP Steering Committee | **IDP Manager** |
| **29 February 2012** | IDP Steering Committee | **IDP Manager** |
| **13 March 2012** | **Draft Budget**<br>Submit Draft budget, tariffs, SDBIP's to Exco for recommendation to Council<br>Submit Draft IDP to Exco for recommendation to Council | |
| **27 March 2012** | **Draft Budget**<br>Submit Draft multi-term operational and capital budget, SDBIP to Council, National and Provincial Treasury, DCGTA<br>Advertise draft IDP/budget and tariffs for comment<br>Submit Draft IDP to Council, National and Provincial Treasury & DCGTA | **CFO**<br><br>**IDP Manager** |
| **30 March -14 April 2012** | **Public Consultation Process**<br>Public Consultation on Draft IDP/budget throughout municipality | **MAYOR**<br>**EXCO**<br>**MM**<br>**IDP Manager** |
| **20 April 2012** | **Respond to Public Comments**<br>Response to public comments and sector comments. Incorporate recommendations into Draft budget and IDP if possible and feasible | **MAYOR**<br>**CFO** |
| **22 May 2012** | **Approval of Final Draft IDP / Budget**<br>Approve the Draft multi-term operational, capital budget and SDBIP<br>Approval of the Draft IDP | **EXCO** |
| **08 June 2012** | Adoption of the IDP | **COUNCIL** |
| **08 June 2012** | **Advertising**<br>Publication of approved budget. Place on web site<br>Publication of approved IDP. Place on web site | **MM**<br>**CFO** |
| **09 June 2012** | **Submission of Budget**<br>Submit approved budget to National and Provincial Treasury and COGTA<br>Submit approved IDP to National and Provincial Treasury and DPLGTA | **CFO**<br><br>**IDP Manager** |
| **22 June 2012** | **Finalise SDBIP**<br>Finalise service delivery and budget implementation plan(SDBIP) and submit to National/Provincial Treasury | **MAYOR**<br>**MM** |

**Table: 11: IDP and Budget Time Schedule**

## 5. OVERVIEW OF THE MUNICIPALITY'S INTEGRATED DEVELOPMENT PLAN

### a. The Vision of the Municipality

The Municipality's long term vision is:

"Prosperous and sustainable hub of Zululand"

**MISSION**

AbaQulusi Municipality commits to the following:

- Economic development and poverty eradication.
- Effective delivery of social services.
- Effective planning and infrastructure development.
- Develop effective governance.
- Strive to make AbaQulusi Municipality the economic hub of Zululand.
- Actively forging strategic partnerships with all Stake holders.

### b. The 5-Year IDP and Strategic Focus Areas

The AbaQulusi Municipality is implementing a new five-year IDP for the period July 2012 to June 2017 to inform and guide the current elected public representatives in their term of office. This document outlines the Municipality's intent in terms of the agreed six strategic focus areas that are required to overcome AbaQulusi challenges, achieve its vision, and give effect to its other strategic considerations.

- Low economic growth and unemployment
- Poor access to basic household services
- High levels of poverty
- Low levels of literacy and skills development
- The issue of HIV / AIDS and other diseases
- Exposure to unacceptably high level of crime and risk
- Unsustainable development practices
- Ineffective, inefficient, inward looking local government

**LOCAL PRIORITIES**

- To build a functionally efficient and local government structure
- To maintain financial stability and sustainability
- To create an integrated and efficient spatial structure
- To promote equitable access to infrastructure and basic services
- To improve the standard of living for the entire community of AbaQulusi municipality
- To facilitate economic development and growth

The draft Integrated Development Plan is attached as Annexure 11.

## c. Measurable performance objectives and indicators

The Municipality's measurable performance objectives, as reflected in Support Table SA7 of Schedule A of the Municipal Budget and Reporting Regulations, are attached as Annexure 2.

## 7. OVERVIEW OF BUDGET-RELATED POLICIES

**Revenue Framework**

Section 18 of the MFMA states that the budget can only be funded by realistically anticipated revenue to be collected, as well as cash backed accumulated funds from previous years and not committed for other purposes.

In addition, NT Circular 42 stipulates that the budget is to be managed in a full accrual manner, reflecting a transparent budget and accounting system approach.

The MFMA requires the municipality to adopt and implement a tariff policy. Council has approved such policies for all major tariff-funded services provided by the municipality, which are attached as Annexures to this document.

Council is required to adopt budgetary provisions based on realistic anticipated revenue for the budget year from each revenue source, as per the requirements of the MFMA (Chapter 4, S17 (1) (a) & (3) (b)).

### 1. Revenue related policies

**General Tariff Policy**

The Municipal System Act requires Council to adopt a Tariff Policy. The general financial management functions covered in section 62 of the MFMA include the implementation of a tariff policy. Specific legislation applicable to each service has been taken into consideration when determining this policy. The General Tariff Policy is attached as Annexure 8.

**Credit Control and Debt Collection Policy**

This Policy has been formulated in terms of section 96 (b) and 98 of the Local Government: Municipal Systems Act, 2000 and the Credit Control and Debt Collection By-Law. The Policy also includes the Indigent Policy as per Annexure 9.

**Budget Policy**

A Budget Policy has been formulated in terms of section of the Municipal Finance Management Act, 2003 and the Budget regulations to set out the procedures for the budget process.

### 2. Budget related policies

**Approved policies**

The following budget related policies have been approved by Council and is available on the Municipality's website.

Supply Chain Management Policy – approved March 2008

- Cash Management and Investment Policy – approved March 2009
- Asset Management Policy - approved October 2004
- Virements Policy – approved May 2010

**Reviewed/Amended policies**

The following budget related policies are currently being reviewed/amended in line with National Guidelines and legislation.

**Property Rates Policy**

Minor amendments to the approved policy are to be considered in March 2011 and the amended policy is attached as Annexure 16.

# 8. OVERVIEW OF BUDGET ASSUMPTIONS

**Environment in which the 2012/2013 Budget was prepared**

The MTREF/budget is susceptible to the economic climate and it is therefore vital that the projected economic condition is properly considered during the budget preparation process.

The 2012/2013 MTREF was drafted in context of a domestic economy that has lost momentum as a result of the disruption to world economic activity following the Japanese tsunami, domestic strike activity and moderating household consumption.

**Figure 3: Key economic trends – 2012 to 2015**

In the first quarter to 2011, the economy grew at 4.5% but slowed down in the second quarter to 1.3%. Real GDP is expected to grow by 3.1% in 2011 which is .3% less than forecasted in the 2011 Budget.

The labour market remains sluggish and unemployment has increased from 21.8% in 2008 to 25.7% in 2011.

Budgetary constraints and economic challenges mean that the Municipality has had to adopt a conservative approach when projecting expected revenue and cash. We have had to apply a combination of cost-saving interventions and will have to carefully evaluate all spending decisions.

The draft budget for the 2012/2013 MTREF period, resulted from the realisation that no, or limited, scope for additional externally- or internally-funded revenue growth existed and the challenge that more needed to be done with the existing resource envelope. This was reiterated in National Treasury Budget Circular 54 as well as a National Treasury presentation to municipalities in August 2010.

To improve financial governance and maximise municipal capacity to deliver services by attending to issues of efficiency, effectiveness and sustainability and dealing with corruption.

The challenges that faced the Municipality in preparing the 2012/2013 MTREF included:

- In attempting to reduce the high Rates revenue parameter, several interventions to multiyear targets of both revenue and expenditure across services were required, while simultaneously retaining the strategic links to and focus on the draft IDP.
- Persistent staff costs increases over the medium term beyond CPI levels (with inflation linked Revenue increases in corresponding periods).
- The interventions applied to eradicate the above challenges included, amongst others:
- Budget reduction targets set to all services in accordance with its portion of vacancies which existed for more than 12 months.

## Financial modelling

The AbaQulusi Municipality MTREF model is annually reviewed to determine the most affordable level at which the municipality will be able to operate optimally. In addition, sustainability forms the basis of the preparation of the Operating and Capital Budgets. It sets out the economic context and assumptions that inform the compilation of the next three years' budget.

The principles applied to the MTREF in determining the affordability envelope were:

- Higher than headline CPI revenue increases, to the extent that they affect and support Council's operational activities of relevant services;
- Assumption of a 100% capital expenditure implementation rate;
- Credible collection rates, based on collection achievements to date, incorporating improved success anticipated on selected revenue items; and
- Higher than nationally projected inflation provisions for repairs and maintenance, to attain nationally benchmarked levels on this expenditure item, and ensure/enhance the preservation of the Municipality's infrastructure.



## Key Financial Indicators in the 2012/2013 MTREF Budget

### Headline Consumer Price Index (CPI) – Inflation Outlook

Headline CPI applied in the 2012/2013 MTREF is 6%, 5.6% and 5.4% respectively for the 3-year period. This differs somewhat from the CPI forecasts of 5.4%, 5.6% and 5.4% for the same period. The levels are within the NT and SARB CPI projections (3% to 6% range).

Budgetary allocations within the current financial year (2011/2012) were largely based on a CPI level of 5%. The MTREF outer years is proposed to remain at 5.6% and 5.4% respectively.

## EXPENDITURE FRAMEWORK

### Salaries, wages and related staff costs

The municipality's salary increases applied to the staff budget were as follows:

| | BASE BUDGET 2011/2012 % | 2012/2013 % | 2013/2014 % | 2014/2015 % |
|---|---|---|---|---|
| **Salaries** | **6.5** | **5** | **5.5** | **5.5** |
| **Add: Increments** | **2** | | | |

**Table 13: Parameters applied to Staff Budget**

The Salary and Wage Collective Agreement by the South African Local Government Bargaining Council (SALGBC) provided the general salary adjustment guidelines for the period 2009/2010 to 2011/2012 has come to an end.

In the absence of an agreement going forward, the 2012/2013 increase formula of 5% was used to project for this year.

Salary increases are consistently higher than CPI. The increase in the salary budget was a contributing factor to the cost pressures experienced on the operating budget

**General Expenses**

The general expenses base was increased from R 142 million to R 175 million due to the increase in Bulk electricity of R 34 million. Therefore the growth in general expenses has been severely limited.

**Repairs and Maintenance**

The National Treasury Municipal Budget Circular 54 for the 2012/2013 MTREF stated that "municipalities must "*secure the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance*". The Municipality has, over the last three financial years, consistently increased the investment in repairs and maintenance by above CPI.

Due to the high increase in bulk electricity the impact has been felt on the repairs and maintenance budget.

**REVENUE FRAMEWORK**

**Service growth**

The current unstable economic climate has restricted any material service growth. The provision for growth for Electricity for the 2012/2013 financial year has been increased to accommodate the new areas which have now been provided with electricity, including the Eskom areas. Over 650 new connections have been made during the 2012/2013 financial year Within the AbaQulusi licence area the municipality has almost reached universal access. AbaQulusi are now assisting Eskom with the provision of electricity to Eskom Licence areas, in order that all the community of AbaQulusi has electricity.

**Revenue growth parameters: Rates and trading services**

The following revenue parameter increases were applied to the 2012/2013 MTREF which informs the tariff increases reflected in the Total Municipal Account (TMA):

**Revenue growth parameters: Rates and trading services**

Ensuring an affordable and sustainable budget necessitated a higher than CPI year-on-year revenue growth to be applied to the Rates and Trading services.

The following revenue parameter increases were applied to the 2012/13 MTREF which informs the tariff increases reflected in the Total Municipal Account (TMA):

- *Rates*: With the backdrop of the current economic climate and other cost pressures negatively impacting on the budget, the rates revenue increase was 6%. This above CPI increase is required to achieve an affordable and balanced rates budget without impeding on service delivery. However, it must also be borne in mind that there continue to be amendments to the valuation roll with the Supplementary valuations rolls which has a direct effect on the revenue for the year.

- *Electricity:* Electricity tariffs are linked to the ESKOM tariffs for bulk purchases of electricity, which is proposed by NERSA to be 13,5% for the 2012/2013 financial year and the block tariff increases allowed by the municipality vary between 5,5% and 16%.

- *Water & Sanitation:* The revenue parameter adjustment for both water and sanitation is 10% for 2012/2013 financial year. It must be noted that the Natal Spa Agreement has been extended to end in June 2012. Growth in the area including new housing project have been taken into account.

- *Refuse Removal:* This revenue parameter increase was modelled at 6%, which is within the ambit of the BER's CPI projection for 2012/2013.

The revenue parameters applied will generate the following revenue parameters:

| REVENUE CATEGORY | ADJUSTMENT BUDGET 2011/2012 R'000 | AVERAGE TARIFF INCREASE | 2012/2013 BUDGETED REVENUE R'000 |
|---|---|---|---|
| Rates | 35,866,670 | 6% | 38,018,670 |
| Refuse | 14,382,760 | 10% | 16,130,230 |
| Electricity | 125,939,170 | 11% | 135,757,760 |
| Water | 22,934,250 | 10% | 24,842,040 |
| Sanitation | 14,729,050 | 10% | 16,202,990 |

**Table 14: Proposed Revenue based on parameter increase**

The high increase in organic growth parameter for Sanitation is the 61% increase in free service

**Collection rate**

In accordance with relevant legislation and national directives, the Municipality's projected revenue recovery rates are based on realistic and sustainable trends. In calculating the working capital reserve the following collection ratios were applied as per the table below.

| SERVICE | BASE BUDGET 2011/2012 % | 2012/2013 % | 2013/2014 % | 2014/2015 % |
|---|---|---|---|---|
| Rates and Services | 92 | 92 | 91 | 92 |

**Table 15: Projected collection rates**

The total collection rate for 2012/2013 averages 97% and is based on a combination of actual collection rates achieved to date and the estimated outcomes for the current financial period. The projections for the outer years remained stable.

**NATIONAL GRANTS**

**Equitable Share**

The Constitution provides that each sphere of government is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere under the Constitution and the capacity of each government to pay for these functions through own receipts and revenues.

The local government equitable share allocations supplement municipalities' own revenue sources for the provision of basic services to poor households within their areas of jurisdiction. The equitable share per municipality is calculated using the following equation:

| |
|---|
| **Grant = BS + D + I – R ± C** |
| **Where** |
| ***BS* is the basic services component** |
| ***D* is the development component** |
| ***I* is the institutional support component** |
| ***R* is the revenue raising capacity correction** |
| ***C* is a correction and stabilisation factor** |

**Table 16: Equitable Share equation**

Initiatives are currently being pursued to assess the application of the equation for the AbaQulusi Municipality to ensure that the allocation received by AbaQulusi is equitable and fair. The annual Division of Revenue Act (DORA) publishes the equitable share allocations. The following indicative allocations, as published in the 2012/2013 DORA, were provided as follows:

- 2012/2013 – R 79.0 million
- 2013/2014 – R 84.9 million
- 2014/2015 – R 92.5 million (Forecast based on year on year average growth)

**Interest rates**

Average interest rates over the 2012/2013 MTREF period
Interest on investments - 5.55%, 5.91% and 6.11%.

**Depreciation**

Depreciation was calculated on a straight line method based on the lifespan of the asset class and capitalisation date. For multi-year projects it was assumed that capitalisation will only take place when the project is completed and depreciation will take effect then.

## 9. OVERVIEW OF BUDGET FUNDING

### 1. 2012/13 and 2013/14 to 2014/15 projected financial performance
### 1.1. Operating Budget

The Operating budget revenue increases from R 316 million in 2011/2012 to R 321 million in 2012/2013; whilst
The Operating budget expenditure increases from R316 million to R409 million.

The growth is mainly attributable to:

- Cost of Bulk Purchases (Electricity)
- Employee related costs due to the financial impact of the Wage Curve Collective Agreement and the Salary/Wage increase above CPI levels
- The GRAP requirement to include Capital grants in the operating budget which decreases from R41,1 million to R34,9 million.

### 1.2. Capital Budget

The capital budget decreases from R41 million in 2011/2012 to R34,9million in 2012/2013.

The reduction can be attributed to various factors, such as:

- The funding received from Department of Energy for electrification of ESKOM areas

### 2. Medium Term Outlook: 2012/2013 to 2014/2015

**Operating Budget including Grant Funding for Capital Projects**

The table below reflects the increase in the operating budget in the medium term:

| | 2012/2013<br>R | 2013/2014<br>R | 2014/2015<br>R |
|---|---|---|---|
| Operating Budget | 356,146,344 | 384,036,625 | 399,914,826 |

**Table 17: Medium Term Operating Budget**

**Capital Budget**

The table below reflects the capital budget and its funding sources in the medium term:

| | 2012/2013<br>R | 2013/2014<br>R | 2014/2015<br>R |
|---|---|---|---|
| Capital Budget | 34,944,000 | 41,840,000 | 36,392,000 |
| Funding Source: | | | |
| MIG | 25,444,000 | 26,840,000 | 28,392,000 |
| DOE | 8,000,000 | 15,000,000 | 8,000,000 |
| Human Settlement | 0 | 0 | 0 |
| COGTA | 1,500,000 | 0 | 0 |
| Other Revenue | 0 | 0 | 0 |

**Table 18: Medium Term Capital Budget and Funding Sources**

The funding sources listed below are appropriated towards the following major projects on the capital budget:

National Grant Funded

- Rural Roads and Bridges
- Municipal Infrastructure projects to improve bulk infrastructure
- eMondlo Roads
- Electrification of Houses

## 3. Sources of Funding

**Rates, tariffs and other charges**

**Property Tax Rates**

The proposed property rates are to be levied in accordance with existing Council policies, the Local Government Municipal Property Rates Act 2004 (MPRA) and the Local Government Municipal Finance Management Act 2003.

The proposed average rates increase is 6% for all categories of Properties.

Property tax rates are based on values indicated in the General Valuation Roll 2009 (GV).
The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplemental Valuation Rolls. All values are as at the date of the GV, being 1 July 2009.

Rebates and concessions are granted to certain categories of property usage and/or property owner.

The definitions and listing of categories are reflected in the Rates Policy attached as Annexure 7.

**Water and Sanitation**

The proposed Water and Sanitation Tariffs for 2012/2013 are consistent with National Policy on the provision of free basic services, the National Strategic Framework for Water and Sanitation and with Council's Indigent relief measures, Rates and Tariff Policies and Equitable Service Framework.

The progressive nature of the existing domestic stepped tariff structure both for water and sanitation is pro-poor and allows for the needs of the indigent. It is also designed to discourage high water consumption levels, which have an impact on the size of both the water and sanitation portions of a consumer's bill. It enables all consumers to adjust their consumption levels to ensure affordability.

There is a proposed 10% increase in volumetric water and sanitation tariffs. The Bulk Water tariff has been increased by 10%.

There is a proposed 6% increase on miscellaneous tariffs.

The proposed consumption based as well as miscellaneous tariffs are shown in the attached Tariffs and Charges Book.

Changes in the tariff policy and tariff schedules for the 2012/2013 financial year are reflected in Annexure 4.

**Electricity**

The proposed revisions to the tariffs have been formulated in accordance with the AbaQulusi Municipality Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA).

In terms of section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal Council with a supporting vote of a majority of its members.

The Electricity Regulation Act requires that proposed revisions to the electricity consumption based tariffs be submitted to the Regulator for approval prior to implementation. Provisional approval will therefore be requested with the express proviso that any alterations required by Council will be submitted to the Regulator as soon as possible.

Domestic consumers supplied directly by the Municipality and charged at the Lifeline Tariff and receiving less than 150 kWh per month on average will continue to receive the free basic supply of 50 kWh per month (included in the 450kWh per month). Note that national guidelines allow for the provision of the free basic supply of 50 kWh per month to be made available to consumers using less than 150 kWh per month. Customers supplied by Eskom and receiving

less than 150kWh per month on average will continue to receive a free basic supply of 50kWh per month (again, included in the 150kWh per month). However, the bulk purchases by the municipality are expected to rise by 13.5%. This increase, together with increases in expenditure on Salaries and Wages, Repairs and Maintenance, contributions to the Rates Account require the electricity tariffs to increase by an average of 20%, however, based on the information received from NERSA tariffs will only increase by average 11,03%.

The consumptive tariff details are reflected in Annexure 4.

**Solid Waste Management**

The Solid Waste Tariffs are levied to recover costs of services provided directly to customers and include collection fees, disposal fees, compost sales, clearance of illegal dumping on private properties, weighbridge fees and other ad hoc services. It is proposed that the Tariffs increase (within CPI) by 10%.

**Tariffs and Charges Book**

Council is permitted to levy rates, tariffs, fees and charges in accordance with the Local Government Municipal Property Rates Act, the Local Government: Municipal Systems Act, Act 32 of 2000, Section 75A and the Municipal Finance Management Act, No. 56 of 2003, 17(a) (ii).

The Tariffs and Charges Book is attached as Annexure 4 and contains all levies, rates and service charges determined for all functions or services performed by the municipality for which a charge is made.

An average growth parameter of 6% was applied to all the miscellaneous tariffs.

All Levies, Rates and Service Charges are determined in compliance with:

- Local Government Municipal Property Rates Act 2004
- Municipal Finance Management Act 56 of 2003
- Local Government Municipal Systems Act 32 of 2000

## 5. Long – Term investments and loans

No new borrowings are proposed for the MTEF budget period

## 6. Grant Allocations

### National Allocations

The table below reflects the grant allocations in terms of the 2012 Division of Revenue Act (No.35022 of 7 February 2012) that have been included in this medium term budget:

| NATIONAL GRANTS | 2012/2013 R | 2013/2014 R | 2014/2015 R |
|---|---|---|---|
| FINANCIAL MANAGEMENT GRANT | 1,500,000 | 1,750,000 | 1,750,000 |
| NATIONAL ELECTRIFICATION PROGRAMME | 8,000,000 | 15,000,000 | 8,000,000 |
| EQUITABLE SHARE | 79,053,000 | 84,983,000 | 92,518,000 |
| MUNICIPAL SYSTEMS IMPROVEMENT | 800,000 | 900,000 | 950,000 |
| MUNICIPAL INFRASTRUCTURE GRANT (MIG) | 25,444,000 | 26,840,000 | 28,392,000 |
| EXPANDED PUBLIC WORKS PROGRAMME | 1,000,000 | 0 | 0 |
| **TOTAL** | **115,797,000** | **129,473,000** | **131,610,000** |

**Table 21: National Allocations**

### Provincial Allocations

The table below reflects the grants allocated in terms of the Provincial Gazette (dated March 2012) that have been included in this medium term budget:

| PROVINCIAL GRANTS | 2012/2013 R | 2013/2014 R | 2014/2015 R |
|---|---|---|---|
| MUSEUM SUBSIDY | 134, 000 | 143, 000 | 151,000 |
| LIBRARY SUBSIDY | 1,431, 000 | 2,799, 000 | 2,951, 000 |
| THUSONG CENTRE | 500, 000 | | |
| COMMUNITY RESIDENTIAL UNITS - CRU | 3,960,000 | 15,000,000 | 15,000,000 |
| **TOTAL** | **6,025, 000** | **17,942, 000** | **18,102, 000** |

**Table 22: Provincial Allocations**

## 11. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Section 67 grants are allocations of funds, from the Municipality's annual operating budget, to organisations or bodies outside any sphere of government. These allocations are gratuitous or unrequited transfers by the Municipality to the grantee organisations and are not payments made in compliance with any commercial or other business transaction.

They provide organisations with funds for carrying out projects, which assist the Municipality in exercising its Constitutional powers and functions which include any additional competencies that may be assigned to the Municipality by National or Provincial Government.

Section 16(2) of the MFMA provides that the mayor must table the annual budget at a Council meeting at least 90 days before the start of a budget year whilst Section 17(3) (j) (iv) provides that when that budget is tabled it must include particulars of any proposed allocations or grants to any organisation or body referred to in Section 67.

The particulars of the Section 67 grants proposed for 2012/2013 are attached as Annexure 12

## 12. ANNUAL BUDGETS AND SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLANS – INTERNAL DEPARTMENTS

In terms of Section 53 (1) (c) (ii) of the MFMA, the Service Delivery and Budget Implementation Plan (SDBIP) is defined as a detailed plan approved by the mayor of a municipality for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate the following –

(a) Projections for each month of

- Revenue to be collected, by source; and
- Operational and capital expenditure, by vote.

(b) Service delivery targets and performance indicators for each quarter, and

(c) Other matters prescribed.

The Mayor, in accordance with Section 53 of the MFMA, is expected to approve the SDBIP within 28 days of the date of approval of the budget. In addition, the Mayor must ensure that the revenue and expenditure projections for each month, and the service delivery targets and performance indicators as set out in the SDBIP, are made public within 14 days of its approval.

The SDBIP gives effect to the Integrated Development Plan and the budget of the municipality. It is an expression of the objectives of the Municipality in quantifiable outcomes, which will be implemented by the administration for the financial period from 1 July 2012 to 30 June 2013 (the Municipal financial year). It includes the service delivery targets and performance indicators for each quarter, which should be linked to the performance agreements of senior management. It therefore facilitates oversight of the financial and non-financial performance of the municipality and allows the Municipal Manager to monitor the performance of the Executive Directors, the Mayor/Council to monitor the performance of the Municipal Manager, and the Community to monitor the performance of the Municipal Government. For the 2012/2013 financial year, the SDBIP will be approved by the Mayor following approval of the Budget.

## 13. LEGISLATION COMPLIANCE STATUS

**1. Compliance with the MFMA implementation requirements has been substantially adhered to through the following activities:**

- **Budget and Treasury Office -** A budget office and Treasury office has been established in accordance with the MFMA.

- **Budgeting -** The annual budget is prepared in accordance with the requirements prescribed by National Treasury and the MFMA.

- **Financial reporting -** 100% compliance with **r**egards to monthly, quarterly and annual reporting to the Mayor, Executive Committee, Council, Provincial and National Treasury.

- **Annual Report -** The annual report is prepared in accordance with the MFMA and National Treasury requirements.

- **Internship Programme -** The Municipality, in participating in the Municipal Finance Management Internship Programme, has employed a number of interns to undergo training in various finance departments. Five interns are currently employed in the Treasury department.

## 14. NATIONAL TREASURY DIRECTIVES

**Key issues addressed in National Treasury Circular 58: Municipal Budget Circular for the 2012/2013 MTREF – refer Annexure 15**

### 1. Providing clean water and managing waste water

In managing the provision of drinking water and the treatment of wastewater, the AbaQulusi Municipality performs the role of Water Service Provider.

**Blue Drop status**

The entire water supply system (including the municipal owned catchments, dams, the water treatment plants, the bulk conveyance system and the whole distribution system) was assessed for the 2010 Blue Drop performance ratings by the Department of Water Affairs.

The Water Service Provider constantly strives to improve its performance with respect to water quality management, including Risk Assessments etc., are integrated into its management processes. Provision is made in the normal budget allocations to maintain the set standards already achieved.

**Green Drop status**

**Areas requiring attention**

The primary problem the municipality is experiencing is that of ageing infrastructure, rapid population growth, maintenance of the existing assets and a shortage of relevant skills. These problems are being experienced throughout the Republic.

**Addressing the areas requiring attention**

The steps the Wastewater Department are taking to address these problems are:

- Recruitment of appropriate staff;
- Training existing staff in an effort to minimise the shortage of trained experienced resources;
- Allocating financial resources to expand and maintain existing assets;

Our Ref.:
Your Ref.

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# QUALITY CERTIFICATE

I, **J F K KHUMALO**, Acting Municipal Manager of **ABAQULUSI MUNICIPALITY**, hereby certify that the draft annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations under the Act, and that the annual budget and supporting documents are consistent with the draft Integrated Development Plan of the Municipality.

**J F K KHUMALO**
**ACTING MUNICIPAL MANAGER OF**
**ABAQULUSI MUNICIPALITY**